

**CONSOLIDATED RURAL WATER DISTRICT NO. 4  
SHAWNEE COUNTY, KANSAS**

FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

And

INDEPENDENT AUDITORS' REPORT

...*KL*...

***Karlin & Long, LLC***  
*Certified Public Accountants*

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**CONSOLIDATED RURAL WATER DISTRICT NO. 4**

Shawnee County, Kansas

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**Karlin & Long, LLC**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT  
ON FINANCIAL STATEMENTS**

To the Board of Directors  
Consolidated Rural Water District No. 4, Shawnee County, Kansas  
Topeka, Kansas 66675

We have audited the accompanying financial statements of the business-type activities of the Consolidated Rural Water District No. 4 as of and for the years ended December 31, 2012 and 2011, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements. We did not audit the financial statements of the Consolidated Rural Water District No. 4 for the year ended December 31, 2011. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the December 31, 2011 year, is based on the report of the other auditors.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

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the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the report of the other auditors is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Consolidated Rural Water District No. 4, Shawnee County, Kansas, as of December 31, 2012 and 2011, and the respective changes in net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other-Matter***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Consolidated Rural Water District No. 4, Shawnee County, Kansas financial statements as a whole. The Schedule of Insurance in Force is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected, by us and the other auditors, to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC  
Lenexa, KS  
February 8, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion of the financial performance of Consolidated Rural Water District No. 4, Shawnee County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2012 and comparative data for the years ended December 31, 2012 and December 31, 2011. This information is presented in conjunction with the audited financial statements that follow this section.

The financial statements presented in this report consist of the *statements of net assets*, *statements of activities and changes in net assets*, and the *statement of cash flows*. The statement of net assets provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the District. The current year's revenues and expenses are accounted for in the statement of activities and changes in net assets. This statement reports the revenues and expenses during the time period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statement of cash flows is to provide information about the District's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, capital and related financing and investing.

### Financial Highlights

The District's total assets decreased by \$248,000 from December 2011 to 2012. This was principally due to the increased accumulated depreciation and the effect that it had on property, plant and equipment, net.

The District's net assets increased by \$287,055 from December 2011 to 2012. This was principally due to the increased water sales.

The District realized income from operations of \$662,020, after recognizing depreciation and amortization expense of \$ 619,966 in 2012 compared to realized income from operations of \$617,015 in 2011, after recognizing depreciation and amortization expense of \$ 662,384 in 2011.

The District realized expense from non-operating revenues (expenses) of \$450,965, after recognizing interest expense of \$ 422,052 in 2012 compared to expense from non-operating revenues (expenses) of \$477,142 in 2011, after recognizing interest expense of \$ 451,629 in 2011.

Total cash on hand at the end of the year was \$ 2,246,954 which was an increase of \$132,295 over the cash on hand on December 31, 2011.

## **Overview of the Financial Statements**

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

### **Notes to basic financial statements**

The notes provide additional information that is essential to a full understanding of the figures provided in the financial statements. The notes to basic financial statements can be found on pages 10 - 23 of this report.

### **Net Assets**

The District's net assets invested in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets still outstanding increased by \$190,214 in 2012 when compared to 2011. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending.

The District's restricted assets are comprised of loan reserve accounts to be used for the Kansas Public Water Supply Loan Fund loans. The reserve accounts decreased by \$7,762 in 2012 compared to the reserve balance in 2011.

The unrestricted net assets may be used to meet the District's ongoing obligations to its customers and creditors. The unrestricted net assets increased by \$104,603 in 2012 compared to the balance in 2011.

### **Current Assets**

The District's current assets increased by \$73,360 in 2012, largely due to an increase in cash offset by a decrease in receivables.

### **Capital Assets**

The District's investment in capital assets for its business-type activities as of December 31, 2012 and 2011 was \$17,911,383 and \$18,216,695, respectively, (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities and equipment.

Additional information on the District's capital assets can be found in Note 11 on pages 17-19 of this report.

## **Current Liabilities**

The District's current liabilities decreased by \$21,559 in 2012, largely due to a decrease in accounts payable offset by an increase in current maturities of long term debt.

## **Long Term Debt**

The District reduced its outstanding debt liability by \$503,812 for the year ended December 31, 2012 as compared to December 31, 2011. The District is considering refinancing its long term debt in order to take advantage of the current interest rates available.

## **Economic Factors and Next Year's Budget and Rates**

The annual budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of our customers.

As a product of an ongoing examination of how the District conducts it's business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The potential of City annexation into our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process. Significant road improvements are anticipated over the next few years and will require some major water line relocation efforts, however most if not all of the costs associated with those improvements should be reimbursable.

## **Requests for Information**

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's financial accountability. If you have any questions about this report or desire any additional information, contact the general manager at 3333 NW Button Road, Topeka, KS 66675 or phone (785) 286-1729.

**Consolidated Rural Water District No. 4**

Shawnee County, Kansas

**STATEMENTS OF NET ASSETS**

As of December 31, 2012 and 2011

<b>ASSETS</b>		
	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 2,246,954	\$ 2,114,659
Short-term investments	1,456,295	1,451,726
Accounts receivable	164,544	193,172
Inventory	119,909	120,262
Other receivables	-	35,845
Prepaid expenses	6,620	5,298
Total current assets	3,994,322	3,920,962
Capital assets not being depreciated	298,634	298,634
Property, plant, and equipment, net	17,612,749	17,918,061
Loan fees, net	125,902	134,188
Loan reserve	1,333,795	1,341,557
Total noncurrent assets	19,371,080	19,692,440
Total Assets	<u>\$ 23,365,402</u>	<u>\$ 23,613,402</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 3,729	\$ 47,039
Accrued interest	182,979	172,096
Accrued liabilities	10,676	11,492
Line extension and meter deposits	8,875	6,875
Current maturities of long term debt	523,328	513,644
Total current liabilities	729,587	751,146
Non Current Liabilities		
Notes payable, net of current maturities	10,971,182	11,484,678
Total liabilities	11,700,769	12,235,824
Net Assets		
Invested in capital assets, net of related debt	\$ 6,542,775	\$ 6,352,561
Restricted	1,333,795	1,341,557
Unrestricted	3,788,063	3,683,460
Total net assets	<u>\$ 11,664,633</u>	<u>\$ 11,377,578</u>

The notes to the financial statements are an integral part of this statement.



**Consolidated Rural Water District No. 4**

Shawnee County, Kansas

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the years ended December 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Water sales	\$ 2,395,007	\$ 2,277,406
Late charges	38,844	41,221
Other fees	68,154	52,539
Total operating revenues	2,502,005	2,371,166
<b>Operating Expenses</b>		
Water purchases	61,072	66,052
Convention expense	-	2,837
Taxes-property	1,903	1,741
Analytical services	2,283	2,397
Sales tax	3,029	1,761
Water protection fees	17,837	21,268
Office supplies	23,182	24,841
Engineering services	7,832	5,818
Professional fees	18,248	8,601
Postage and delivery	23,915	27,343
Uniforms	4,824	5,459
Chemicals	191,541	171,986
Fuel	30,655	34,200
Insurance	38,098	45,048
Miscellaneous	9,961	7,768
Rent	8,222	13,334
Repairs and maintenance	174,996	75,332
Telephone	5,018	7,978
Tools and supplies	68,203	55,121
Depreciation and amortization expense	619,966	662,384
Dues and subscriptions	-	1,435
Personnel costs	319,739	324,807
Payroll taxes	34,659	29,623
Employee benefits	49,057	43,696
Utilities	125,745	113,321
Total operating expenses	1,839,985	1,754,151
Income (loss) from operations	662,020	617,015
<b>Non-Operating Revenues (Expenses)</b>		
Interest income	12,645	17,758
Interest expense	(422,052)	(451,629)
Loan service fees	(41,558)	(43,271)
Total non-operating income (expense)	(450,965)	(477,142)
<b>Net Income (loss) Before Contributions</b>	211,055	139,873
<b>Capital Contributions</b>		
Benefit units and aid in construction	76,000	73,000
<b>Change in Net Assets</b>	287,055	212,873
<b>Net Assets - Beginning of Year</b>	11,377,578	11,164,705
<b>Net Assets - End of Year</b>	\$ 11,664,633	\$ 11,377,578

The notes to the financial statements are an integral part of this statement.

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	\$ 2,565,990	\$ 2,369,041
Cash payments for goods and services	(943,375)	(695,951)
Cash payments to employees for services	<u>(319,739)</u>	<u>(355,672)</u>
Net cash provided by operating activities	1,302,876	1,317,418
Cash flows from investing activities		
Interest income	13,133	18,998
Purchase of investments	<u>(4,569)</u>	<u>(9,796)</u>
Net cash provided by investing activities	8,564	9,202
Cash flows from capital and related financing activities		
Proceeds from sale of debt/reduction in reserve	7,762	773,120
Payments on notes payable	(503,812)	(1,258,144)
Interest paid	(411,169)	(422,804)
Loan fees paid	(41,558)	(43,271)
Proceeds from sale of benefit units	76,000	73,000
Purchase of capital assets	<u>(306,368)</u>	<u>(314,674)</u>
Net cash used in capital and related financing activities	<u>(1,179,145)</u>	<u>(1,192,773)</u>
Net increase in cash and cash equivalents	132,295	133,847
Cash and cash equivalents, beginning of year	<u>2,114,659</u>	<u>1,980,812</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,246,954</u></u>	<u><u>\$ 2,114,659</u></u>

The notes to the financial statements are an integral part of this statement.

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 662,020	\$ 617,015
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	619,966	662,384
Changes in assets and liabilities		
Accounts receivable	28,628	(2,124)
Other receivable	35,357	-
Inventory	353	(3,211)
Prepaid expenses	(1,322)	12,390
Accounts payable	(43,310)	31,567
Line extension and meter deposits	2,000	640
Accrued expenses	<u>(816)</u>	<u>(1,243)</u>
Net cash provided by operating activities	<u>\$ 1,302,876</u>	<u>\$ 1,317,418</u>

The notes to the financial statements are an integral part of this statement.

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies**

**Organization**

Consolidated Rural Water District No. 4, Shawnee County (the District) was organized under Kansas law with the purpose and objective to acquire water and water rights, and to build and acquire pipelines for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons located within the District. Effective April 1, 2005, Rural Water District No. 4 of Shawnee County, Kansas consolidated with Rural Water District No.3 and No.5 of Shawnee County, Kansas. The benefit units in service at December 31, 2012 and 2011 was 4,571 and 4,552, respectively.

**Basis of Accounting**

The District's financials are prepared in accordance with generally accepted accounting principals (GAAP) for as an enterprise fund.

**GASB Statement No. 34**

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

**Management's Discussion and Analysis**

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and an analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

**Statement of Net Assets**

This statement is designated to display the financial position of the District. The District reports all capital assets, including infrastructure. The net assets of the

**Consolidated Rural Water District No. 4**  
**Shawnee County, Kansas**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (continued)**

District will be classified into three categories 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Net assets represent the difference between assets and liabilities. Net assets are reported as being restricted when there are limitations imposed on their use through board action or external restrictions.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

**Budget**

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

**Cash and Cash Equivalents**

For the purpose of the financial statements the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

**Investments**

The investments represent nonnegotiable certificates of deposit. The Certificates of deposit are recorded at cost because they are not affected by market rate changes.

**Accounts Receivable**

The meters in the District are read between the 10<sup>th</sup> and 20<sup>th</sup> of each month. All readings are processed and then prepared for mailings on the 1<sup>st</sup> day of the month following the reading. Payments for water are due the 20<sup>th</sup> day of the following month or will be subject to a 10% late

**Consolidated Rural Water District No. 4**  
**Shawnee County, Kansas**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (continued)**

charge. The base rate charge varies from \$14.90 to \$26.33 based on the size of the water line and usage is billed at a rate of \$3.31 per 1,000 gallons.

There has not been a water rate adjustment since July 1, 2010.

**Inventory**

The District's inventory is valued at cost. Cost is determined by the average cost method.

**Property, Plant, and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation expense totaled \$ 611,680 and \$654,098 for the years ended December 31, 2012 and 2011, respectively.

**Bond Issuance Costs**

Costs related to the issuance of water system revenue bonds have been capitalized and are being amortized on a straight line basis over the term of the bond issue.

**Benefit Units**

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$3,000 for a ¾ inch meter, \$4,000 for a 1 inch meter, \$5,800 for a 1 ½ inch meter and \$7,100 for a 2 inch meter.

**Aid in Construction**

Aid in Construction represents contributions from the members for line extensions.

**Consolidated Rural Water District No. 4**  
**Shawnee County, Kansas**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (continued)**

**Net Assets**

The District's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the District's total investment in capital assets, net of accumulated depreciation and related debt.

Restricted assets - the District's restricted assets are comprised of loan reserve accounts to be used for the Kansas Public Water Supply Loan Fund loans.

Unrestricted net assets – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expenses.

**Use of Estimates**

The preparation of financial statements in compliance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes**

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

The District's payroll tax returns for the years ending 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

**NOTE 2 – Cash and cash equivalents**

Cash and cash equivalents consist of the following:

	<u>2012</u>	<u>2011</u>
Cash in checking	\$ 1,539,129	\$ 1,408,828
Cash in money market	707,675	705,681
Petty cash	150	150
	<u>\$ 2,246,954</u>	<u>\$ 2,114,659</u>

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – Deposits and Investments**

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk**

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2012 and 2011.

At December 31, 2012 and 2011, the District's carrying amount of deposits, including certificates of deposit, was \$ 3,703,249 and \$ 3,566,385 respectively, and the bank balance was \$3,705,311 and \$ 3,570,250 respectively, of which \$ 250,000 was covered by FDIC insurance. \$3,455,311 was collateralized by securities held in safekeeping pledged to the District.

**NOTE 4 – Accounts Receivable**

Accounts receivable are carried at original billed amount less any estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts.



**Consolidated Rural Water District No. 4**  
**Shawnee County, Kansas**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – Prepaid Expenses**

Prepaid expenses consist of prepaid insurance. Payments for insurance coverage are amortized over the term of the premium payment.

**NOTE 6 – Risk Management**

The District is exposed to various risks of loss related to limited torts, theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. See Schedule of Insurance for details of insurance.

**NOTE 7 – Compliance with Kansas Statutes**

References made herein to the statutes are not intended as interpretation of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water District. We noted no violations of Kansas statutes during the years ended December 31, 2012.

**NOTE 8 – Defined Contribution Pension Plan**

The Deferred compensation plan is available to all employees of the District. Under the plan, employees may elect to defer a portion of their salaries to the plan. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or other allowable cause. The District has the option of contributing to the plan. In 2012 and 2011, the District contributed 5% of the employees' gross salaries, which was 12,285 and 10,071, respectively. Under the terms of IRC Section 457 deferred compensation plans, all deferred compensation and income attributable to the plan are property of the District and subject to the claims of the creditors of the District.

**NOTE 9 – Line Extensions and Meter Deposits**

The District requires developers to pay in advance the cost on constructing lines and renters to pay deposits for water services. The entire balance of \$8,875 and \$6,875 as of December 31, 2012 and 2011, consists of renter deposits.

**NOTE 10 – Contracts**

In 2000 the District entered into a 20 year contract with the City of Topeka, Kansas for the purchase of water. The District purchased 15,330,000 gallons of water from the City in 2012.

**Consolidated Rural Water District No. 4**  
**Shawnee County, Kansas**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11—Property, Plant, and Equipment**

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Addition/</u> <u>Completions</u>	<u>Retirements/</u> <u>Adjustments</u>	<u>Balance</u> <u>December 31</u>
Capital Assets Not Being Depreciated				
Land	\$ 298,634	-	-	\$ 298,634
Capital Assets Being Depreciated				
Wells	228,149	-	-	228,149
Distribution lines	7,688,631	-	-	7,688,631
Meters	723,112	-	-	723,112
Structures	3,771,195	-	-	3,771,195
Equipment	364,981	20,076	-	385,057
Plumbing	41,380	-	-	41,380
Purification	6,806	-	-	6,806
Furniture & fixtures	15,894	-	-	15,894
Miscellaneous	4,870	-	-	4,870
Construction interest	19,214	-	-	19,214
Construction in progress	116,385	286,292	-	402,677
New water treatment plant	12,458,345	-	-	12,458,345
 Total Capital Assets	 25,737,596	 306,368	 -	 26,043,964
Accumulated depreciation	(7,520,901)	(611,680)	-	(8,132,581)
 Total Capital Assets, net	 \$ 18,216,695	 \$ (305,312)	 \$ -	 \$ 17,911,383

Depreciation expense for the year ended December 31, 2012 was \$611,680.

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11—Property, Plant, and Equipment (continued)**

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Addition/</u> <u>Completions</u>	<u>Retirements/</u> <u>Adjustments</u>	<u>Balance</u> <u>December 31</u>
Capital Assets Not Being Depreciated				
Land	\$ 298,634	-	-	\$ 298,634
Capital Assets Being Depreciated	-	-	-	-
Wells	228,149	-	-	228,149
Distribution lines	7,525,699	162,932	-	7,688,631
Meters	723,112	-	-	723,112
Structures	3,771,195	-	-	3,771,195
Equipment	364,981	-	-	364,981
Plumbing	41,380	-	-	41,380
Purification	6,806	-	-	6,806
Furniture & fixtures	15,894	-	-	15,894
Miscellaneous	4,870	-	-	4,870
Construction interest	19,214	-	-	19,214
Construction in progress	-	116,385	-	116,385
New water treatment plant	12,458,345	-	-	12,458,345
Total Capital Assets	25,458,279	279,317	-	25,737,596
Accumulated depreciation	(6,866,803)	(654,098)	-	(7,520,901)
Total Capital Assets, net	<u>\$ 18,591,476</u>	<u>\$ (374,781)</u>	<u>\$ -</u>	<u>\$ 18,216,695</u>

Depreciation expense for the year ended December 31, 2011 was \$654,098.

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 – Property, Plant, and Equipment (continued)**

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	<u>Capitalization Policy</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Wells	\$5,000	Straight Line	10 to 20 years
Distribution lines	\$5,000	Straight Line	10 to 20 years
Meters	\$5,000	Straight Line	40 years
Structures	\$5,000	Straight Line	10 years
Equipment	\$5,000	Straight Line	10 to 30 years
Plumbing	\$5,000	Straight Line	3 to 10 years
Purification	\$5,000	Straight Line	10 to 20 years
Furniture & fixtures	\$5,000	Straight Line	3 to 10 years
Miscellaneous	\$5,000	Straight Line	3 to 10 years
Construction Interest	\$5,000	Straight Line	20 years

The District will use the above table to determine capitalization but can capitalize items below the threshold at their discretion.

**NOTE 12 – Loan Fees**

In 1998 the District obtained a 20 year loan from the Kansas Public Water Supply Loan Fund (KPWSLF). The fees paid to obtain this loan were \$10,445. The fees are being amortized over the life of the loan. Amortization on this loan is \$522 per year. Total amortization at the end of December 31, 2012 and 2011 was \$5,851 and \$5,329, respectively.

In 2008 the District obtained another twenty year loan from KPWSLF for the construction of a new water treatment plant. The fees paid to obtain this loan were \$137,500. The fees will be amortized over the life of the loan. An additional \$17,777 in loan fees was paid during 2009. Amortization on this loan was \$7,764 for both 2012 and 2011. Total amortization at the end of December 31, 2012 and 2011 was \$33,969 and \$26,205, respectively.

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 – Loan Fees Continued**

Total loan fees at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Loan fees	\$ 165,722	\$ 165,722
Less: accumulated amortization	<u>(39,820)</u>	<u>(31,534)</u>
Net Loan Fees	<u><u>125,902</u></u>	<u><u>134,188</u></u>

Amortization expense for both years ended December 31, 2012 and 2011 was \$8,286.

**NOTE 13 – Accrued Liabilities**

	<u>2012</u>	<u>2011</u>
Accrued interest	\$ 182,979	\$ 172,096
Accrued salaries	<u>10,676</u>	<u>11,492</u>
Total Accrued Liabilities	<u><u>\$ 193,655</u></u>	<u><u>\$ 183,588</u></u>

**NOTE 14 – Long Term Debt**

In 2000, the District received a loan from the Kansas Public Water Supply Loan Fund (KPWSLF) up to \$915,770 (\$432,010 outstanding at December 31, 2012, \$480,323 outstanding at December 31, 2011) bearing interest at 4.09%. The first payment was made in August 2000 and the District will make semi-annual principal and interest payments of \$33,735 over 20 years. Revenues of the District have been pledged as security.

In 2008, the District received another loan from KPWSLF for up to \$12,500,000 for the construction of a Water Treatment Plant. Advances on this loan began in 2008. The balance of this note at December 31, 2012 was \$11,062,500, and at December 31, 2011 was \$11,517,999. The note bears an interest rate of 3.43%. The first payment was made in February, 2010 and the District will make semi-annual principal, interest and service fee payments of \$445,019 over 20 years. Revenues of the District have been pledged as security.

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 14 – Long Term Debt – Continued**

As part of the loan agreements, the District is required to maintain a debt service coverage ratio of 1.25 and establish a loan reserve account in the amount of 10% of the unpaid principal. In 2012 the debt coverage ratio was 1.31. In 2011, the debt service ratio was 1.30.

In 2010 the District was in violation of the debt service ratio. As a result, the District entered into a financial integrity assurance contract with the Kansas Rural Water Finance Authority (KRWFA). As a result of this contract, the District has agreed to the following conditions:

- Complete a quarterly management report of operating data and financial information in the form prescribed by KRWFA
- Completion of a budget 90 days prior to the end of the District's fiscal year.
- Completion of the audit not less than 180 days after the end of the fiscal year.
- Maintain debt service coverage of 1.25.

Long-term debt consists of the following at December 31, 2012

<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1/1/2012</u>	<u>Principal Draws</u>	<u>Principal Payments</u>	<u>Outstanding 12/31/2012</u>
9/12/1998	\$ 915,770	\$ 480,323	\$ -	\$ (48,313)	\$ 432,010
5/8/2008	<u>12,500,000</u>	<u>11,517,999</u>	<u>-</u>	<u>(455,499)</u>	<u>11,062,500</u>
	<u>\$ 13,415,770</u>	<u>\$ 11,998,322</u>	<u>\$ -</u>	<u>\$ (503,812)</u>	<u>\$ 11,494,510</u>

Interest expense on outstanding debt for the year ended December 31, 2012 was \$422,052.

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 14 – Long Term Debt – Continued**

Long-term debt consists of the following at December 31, 2012:

<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1/1/2011</u>	<u>Principal Draws</u>	<u>Principal Payments</u>	<u>Outstanding 12/31/2011</u>
9/12/1998	\$ 915,770	\$ 526,720	\$ -	\$ (46,397)	\$ 480,323
5/8/2008	<u>12,500,000</u>	<u>11,956,627</u>	<u>-</u>	<u>(438,628)</u>	<u>11,517,999</u>
	<u>\$ 13,415,770</u>	<u>\$ 12,483,347</u>	<u>\$ -</u>	<u>\$ (485,025)</u>	<u>\$ 11,998,322</u>

Interest expense on outstanding debt for the year ended December 31, 2011 was \$ 451,629.

Future maturities of long-term debt are as follows as of December 31, 2012:

<u>Year Ending December 31</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Service Fees</u>	<u>Total</u>
2013	\$ 523,328	\$ 394,401	\$ 39,777	\$ 957,506
2014	543,601	375,976	37,929	957,506
2015	564,659	356,840	36,007	957,506
2016	586,533	336,960	34,013	957,506
2017	609,255	316,312	31,939	957,506
2018-22	3,243,434	1,249,135	126,291	4,618,860
2023-27	3,725,278	658,314	66,592	4,450,184
2028-29	<u>1,698,422</u>	<u>74,158</u>	<u>7,498</u>	<u>1,780,078</u>
	<u>11,494,510</u>	<u>3,762,096</u>	<u>380,046</u>	<u>15,636,652</u>

Debt service coverage ratio is calculated as follows:

	<u>2012</u>	<u>2011</u>
Income before capital contributions	\$ 211,055	\$ 139,873
Interest expense	422,052	451,629
Depreciation and amortization	<u>619,966</u>	<u>662,384</u>
Available for debt service	1,253,073	1,253,886
Debt service payments	<u>957,506</u>	<u>963,825</u>
Debt Service Coverage Ratio	<u>1.31</u>	<u>1.30</u>

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 15 – Invested in Capital, Net of Related Debt**

The following represents the invested in capital, net of debt:

	<u>2012</u>	<u>2011</u>
Property, plant & equipment, net of accumulated depreciation	\$ 17,911,383	\$ 18,216,695
Loans costs, net to amortization	125,902	134,188
Outstanding debt	<u>(11,494,510)</u>	<u>(11,998,322)</u>
Invested in Capital, net of related debt	<u>\$ 6,542,775</u>	<u>\$ 6,352,561</u>

**NOTE 16 – Concentrations of Credit Risk**

The District is engaged in the sale of water to customers located in Shawnee, Jefferson and Jackson Counties in Kansas. The District grants credit to those customers and requires no collateral.

**NOTE 17 – Compensated Absences**

The District has a paid time off policy program for employees, which includes vacation, sickness or other personal needs. Full-time employees with one year of service are eligible for two weeks of vacation. All employees accrue a 1/2 day of sick leave for every month of service and up to 30 days of sick leave can be retained. No accrued vacation or sick leave is included in these financial statements due to the District's policy of recognizing the costs of compensated absences when actually paid to employees.

**NOTE 18 – Subsequent Events Review**

Subsequent events for management's review have been evaluated through February 8, 2013. The date the financial statements were available to be issued.



...KL...

**Karlin & Long, LLC**  
*Certified Public Accountants*

Board of Directors

Consolidated Rural Water District No. 4, Shawnee County, Kansas  
Topeka, Kansas 66675

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDIT STANDARDS**

We have audited the basic financial statements of the business-type activities of Consolidated Rural Water District No. 4, Shawnee County, Kansas (the District) as of and for the year ended December 31, 2012 and 2011, and have issued our report thereon dated February 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Board of Directors  
Consolidated Rural Water District No. 4, Shawnee County, Kansas

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, others within the organization, and management and is not intended to be and should not be used by anyone other than these specified parties.

*Karlin & Long, LLC*

Karlin & Long, LLC  
Certified Public Accountants

February 8, 2013

RURAL WATER DISTRICT No. 8  
Shawnee County, Kansas

SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2011

**Current Findings**

None

**Prior Findings**

None

**Consolidated Rural Water District No. 4**  
Shawnee County, Kansas

**SCHEDULE OF INSURANCE IN FORCE**

As of December 31, 2012

Property Covered	Coverage	Expires
General Liability:		7/12/2013
Aggregate Limit -	2,000,000	
each occurrence	1,000,000	
Personal and advertising injury	1,000,000	
Medical expense (per person)	5,000	
Commercial property:	90%-100% Coinsurance	7/12/2013
Building and personal property		
Water towers and equipment	15,373,800	
Linebacker Coverage		7/12/2013
Each loss	1,000,000	
Aggregate	1,000,000	
Workmen's compensation:		7/12/2013
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		7/12/2013
Treasurer excess	800,000	
Employees	70,000	
Inland Marine	80% Coinsurance	7/12/2013
Miscellaneous property	372,656	
Commercial Auto:		7/12/2013
Liability insurance (per loss)	1,000,000	
Uninsured motorist	1,000,000	
Underinsured motorist	1,000,000	
Commercial Umbrella:		7/12/2013
Occurrence limit	1,000,000	
Personal and advertising injury limit	1,000,000	
Aggregate limit	1,000,000	

The notes to the financial statements are an integral part of this statement.